



Economic Outlook

2007-2008 Proposed Budget

**2007-2012 Proposed Capital
Improvement Program**

Highlights

**Presented to the Seattle City Council
Finance and Budget Committee
by
the Department of Finance
September 28, 2006**

ECONOMIC OUTLOOK

August 2006 Forecast in \$ millions

		2006 Forecast			2007 Forecast			2008 Forecast		
General Fund Revenues	2005 Act.	April	August	Change	April	August	Change	April	August	Change
General Property Tax	183.5	187.9	187.9	-	194.9	194.9	-	199.5	199.5	-
Property Tax - Medic One Levy *	20.1	20.7	20.7	-	21.2	21.2	-	21.7	21.7	-
Retail Sales Tax	131.0	139.6	140.1	0.5	147.1	147.8	0.7	153.6	154.6	1.0
Retail Sales Tax - Criminal Justice Levy	12.3	13.1	13.1	0.1	13.8	13.9	0.1	14.4	14.5	0.1
B&O Tax (90%) **	130.5	139.1	143.9	4.8	147.8	150.0	2.2	135.3	158.3	23.0
Utilities Business Tax - Telephone (90%)	26.6	26.0	26.9	0.9	25.5	26.0	0.5	25.0	25.7	0.7
Utilities Business Tax - City Light (90%)	30.3	31.4	31.4	(0.0)	32.6	30.6	(1.9)	32.7	31.3	(1.4)
Utilities Business Tax - SWU & priv.garb. (90%)	8.2	9.1	9.1	(0.0)	9.1	9.8	0.6	9.3	10.4	1.1
Utilities Business Tax - City Water (90%)	12.8	15.2	15.4	0.2	15.8	15.5	(0.3)	16.6	16.3	(0.2)
Utilities Business Tax - DWU (90%)	18.1	19.6	19.8	0.1	21.2	21.4	0.2	23.3	22.1	(1.1)
Utilities Business Tax - Natural Gas (90%)	12.1	13.5	14.3	0.8	13.8	15.0	1.2	13.2	14.3	1.1
Utilities Business Tax - Other Private (90%)	10.6	12.4	12.7	0.3	12.1	12.0	(0.1)	12.5	12.2	(0.3)
Admission Tax	6.7	7.8	7.2	(0.6)	7.6	7.2	(0.4)	7.7	7.4	(0.3)
Other Tax	4.9	4.8	4.8	-	4.8	4.8	-	4.8	4.8	-
Licenses and Permits	15.3	12.7	13.0	0.2	12.6	12.7	0.1	12.6	12.4	(0.2)
Parking Meters/Meter Hoods	15.3	16.6	16.6	-	17.6	18.3	0.7	18.1	19.6	1.5
Court Fines	16.3	15.4	17.6	2.1	15.0	17.0	2.0	14.6	16.3	1.7
Interest Income	3.2	3.3	4.4	1.1	3.0	4.3	1.3	2.5	3.6	1.1
Revenue from Other Public Entities	22.3	8.6	9.0	0.3	9.0	9.7	0.7	9.2	9.5	0.3
Service Charges & Reimbursements ***	42.0	38.9	40.2	1.3	42.0	46.2	4.1	42.8	46.5	3.7
All Else	1.2	1.2	1.4	0.2	0.5	1.0	0.6	0.5	1.1	0.6
Interfund Transfers	4.5	0.9	1.0	0.2	0.9	2.0	1.1	0.9	0.9	0.0
Key Arena Revenues				-		3.7	3.7		3.6	3.6
Total Revenue and other financing sources	727.7	737.8	750.3	12.5	767.7	784.9	17.2	770.6	806.6	36.1
Parks' Department "Charter" Revenues	31.0	32.7	33.7	1.0	34.0	34.3	0.3	32.8	35.4	2.6
Total	758.7	770.5	784.0	13.5	801.6	819.2	17.6	803.4	842.0	38.6
% Change from April ****			1.7%			2.2%			4.8%	
Real Estate Excise Tax	49.4	45.6	51.4	5.8	44.2	48.6	4.3	44.7	49.6	4.9

*Assumes no increase in rate as part of levy renewal for 2008

**Assumes no B&O loss from HB 2030

***Assumes renewal of AFIS levy in September 2006

****2008 figure would be 1.9% with the removal of the HB 2030 assumption

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Revenue Forecast Changes

GSF Revenue Forecast Changes Since April

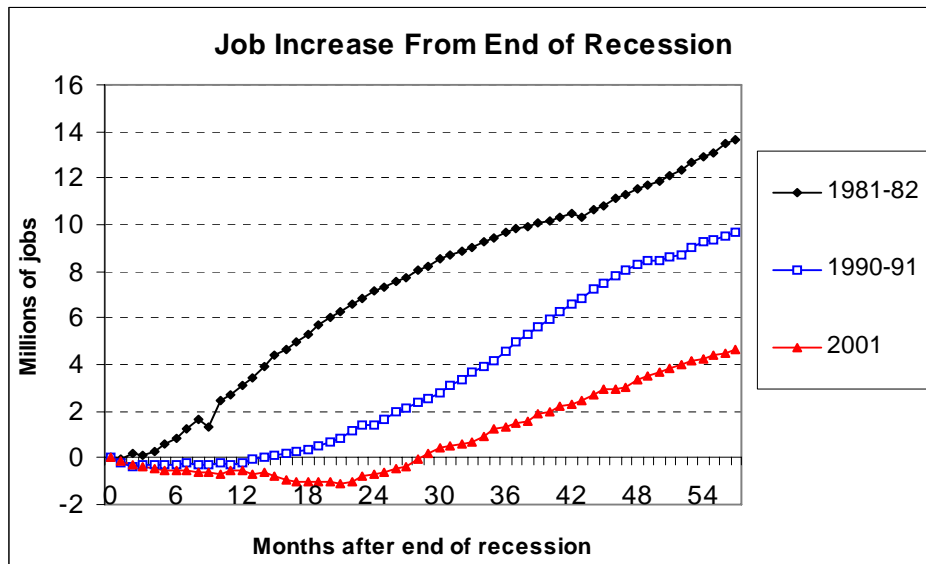
9/28/2006 9:02	2006	2007	2008	3 Year Total
April to August GSF Revenue Forecast Changes	12.3	17.3	36.1	65.6
<u>Policy/Expenditure Changes</u>				
B&O Tax - full mitigation from HB 2030	-	-	19.2	19.2
Key Arena/Seattle Center (1)	-	3.7	3.6	7.4
Interfund Revenue	-	2.5	2.6	5.1
Court Fines & Forfeitures (90%)-Red Light Violatons	0.4	1.1	0.8	2.3
Parking Meters	-	0.7	1.5	2.2
Law Enforcement Issues	1.0	0.5	0.5	1.9
Utilities Business Tax - City SWU (90%)	-	0.6	1.1	1.7
Professional & Occupational Licenses (90%)	-	(0.8)	(1.0)	(1.8)
Utilities Business Tax - City Light(90%)	-	(1.9)	(1.4)	(3.3)
subtotal				34.8
<u>Forecast Changes</u>				
B&O Tax	4.8	2.2	3.8	10.8
Interest on Investments	1.1	1.3	1.1	3.6
Court Fines & Forfeitures (90%)	1.7	0.9	0.8	3.4
Utilities Business Tax - Natural Gas (90%)	0.8	1.2	1.1	3.0
Retail Sales Tax	0.5	0.7	1.0	2.2
Utilities Business Tax - Telephone (90%)	0.9	0.5	0.7	2.1
Fire Permits	0.2	0.3	0.3	0.8
subtotal				26.0

(1) This amount is more than offset by \$6.3 million of annual debt service, which is included in adjustments on the previous page.

Economic Conditions & Forecast

U.S. Economy: A Review of the Decade to Date

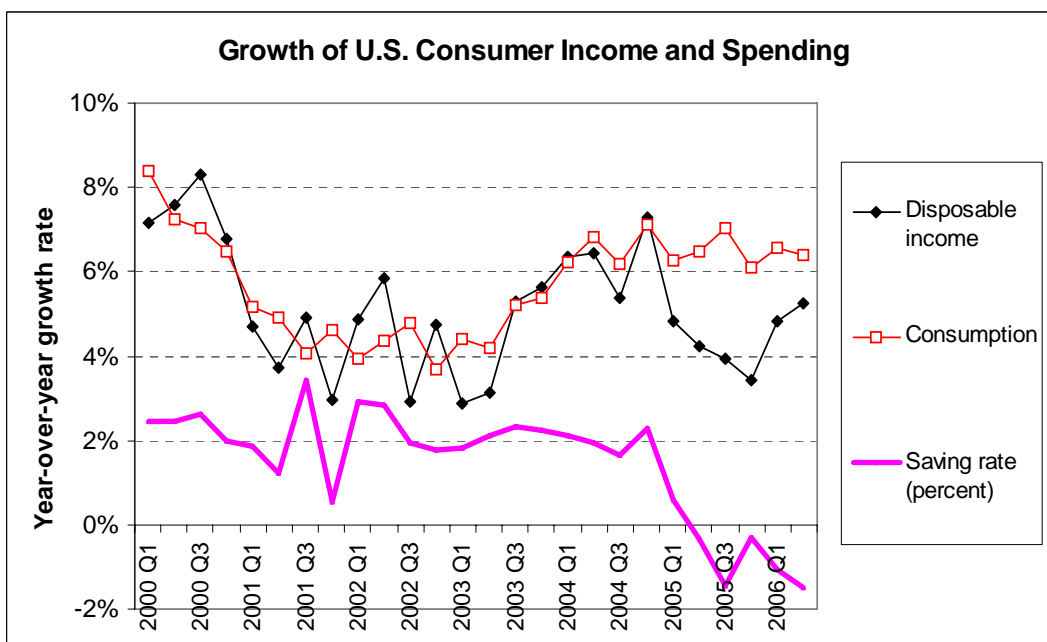
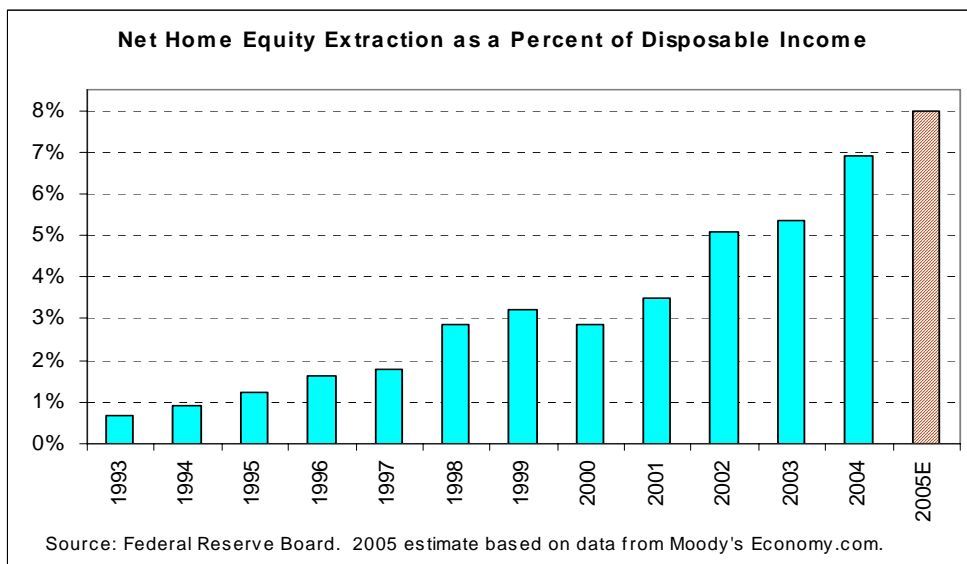
- Stock market boom drove late 90s growth
 - Investment boom
 - Wealth effect spurred consumption
- 2001 recession was mild nationally as consumers kept spending
 - Tax cuts
 - Interest rate cuts
- Recovery has been weak by historical standards
 - Especially wage growth



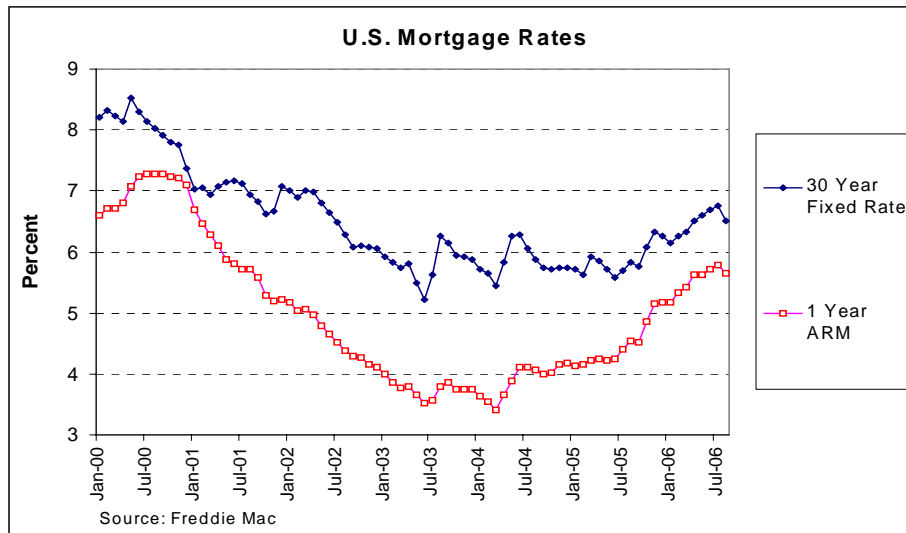
Housing has led recovery

- Low interest rates have enhanced affordability
- With stocks declining, real estate investment became attractive

- Housing related industries have flourished
 - Construction
 - Finance, insurance, and real estate
 - Sale of building materials and home furnishings
- Rising home values have supported consumption
 - Wealth effect
 - Home equity borrowing and refinancing

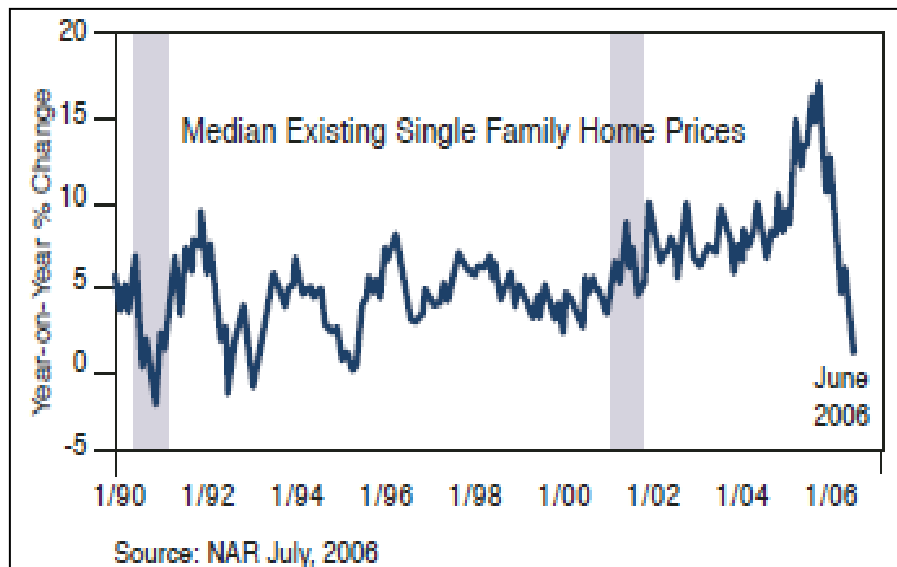


- Federal Reserve began raising interest rates in June 2004
 - Mortgage rates followed
 - Rising interest rates and prices reduced affordability
 - Housing market peaked in 3rd quarter 2005

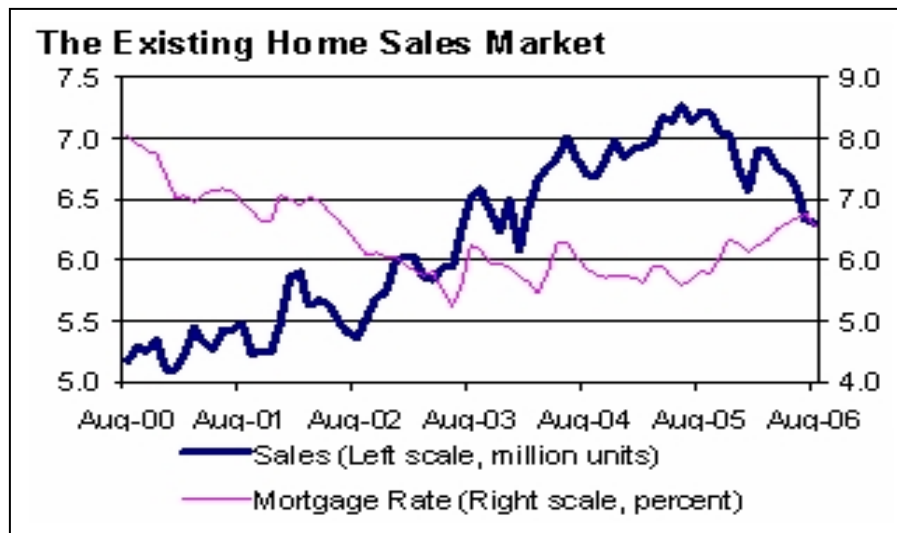


How the housing market turns

- Turning preceded by period of strong appreciation driven by:
 - Very low interest rates
 - Strong investor activity
 - People buying before they're priced out of market
 - Aggressive lending (interest only and option ARMs, etc.)
- Eventually buyers are priced out of market
 - Home prices rise
 - Rising interest rates push up mortgage payments
- When market turns:
 - Demand falls
 - Potential buyers are priced out of market
 - Buyers who bought early to avoid being priced out are not in market
 - Investor activity slows
 - Inventories of unsold homes rise
 - With demand down and supply up, prices cool
- Concerns for the future include
 - Reset of adjustable rate mortgages
 - Potential for defaults



Source: PIMCO.



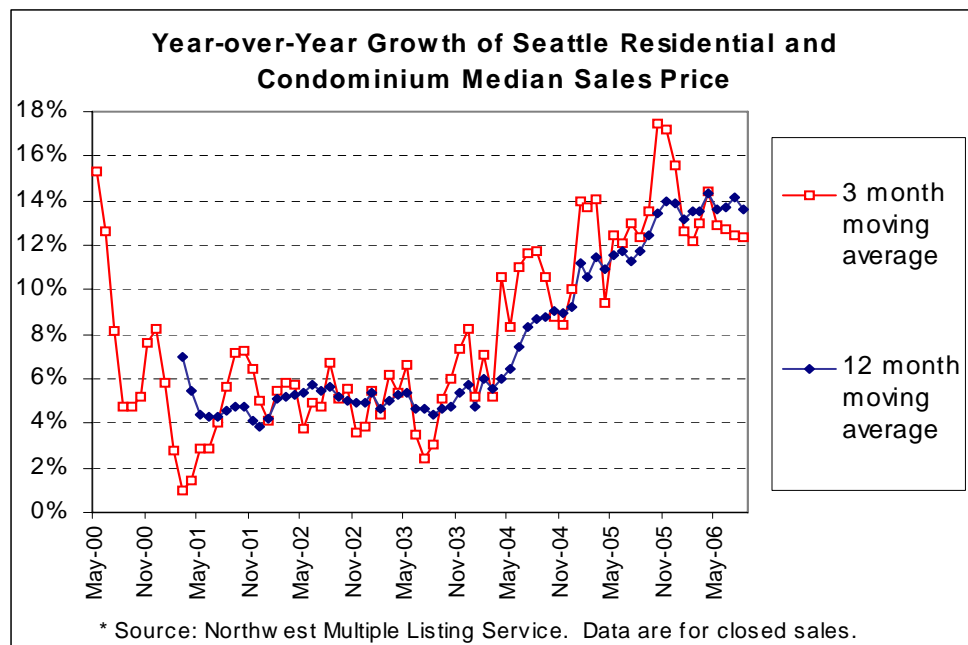
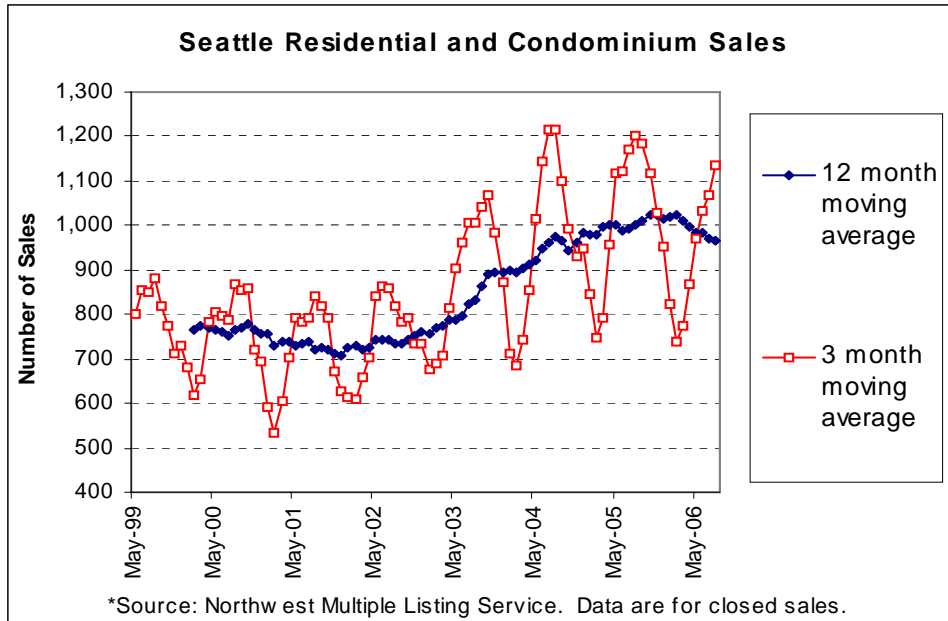
Source: Global insight.

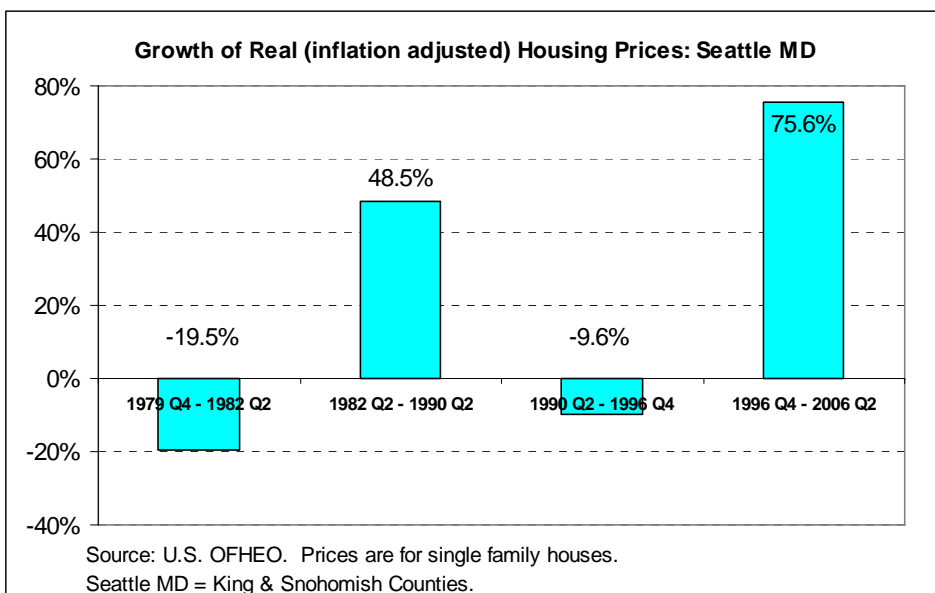
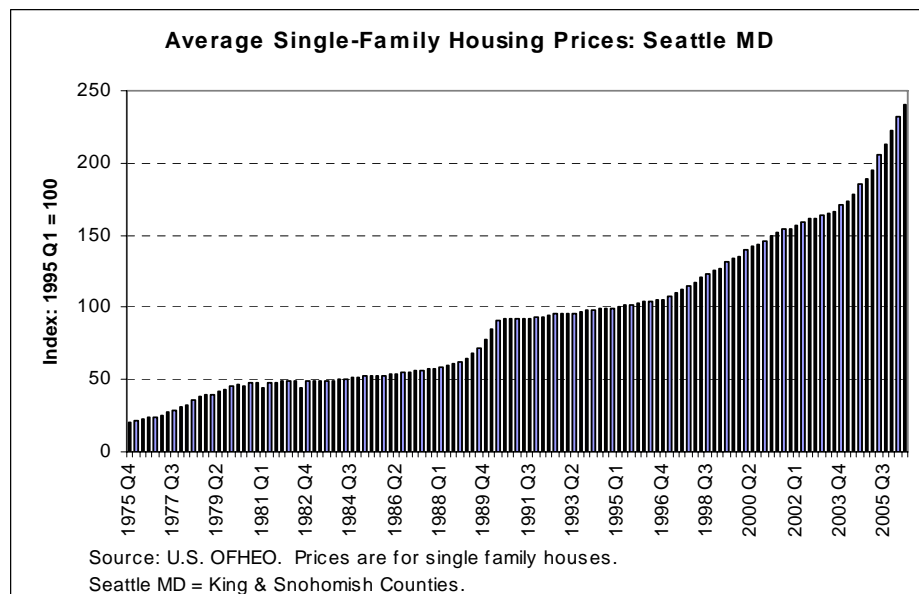
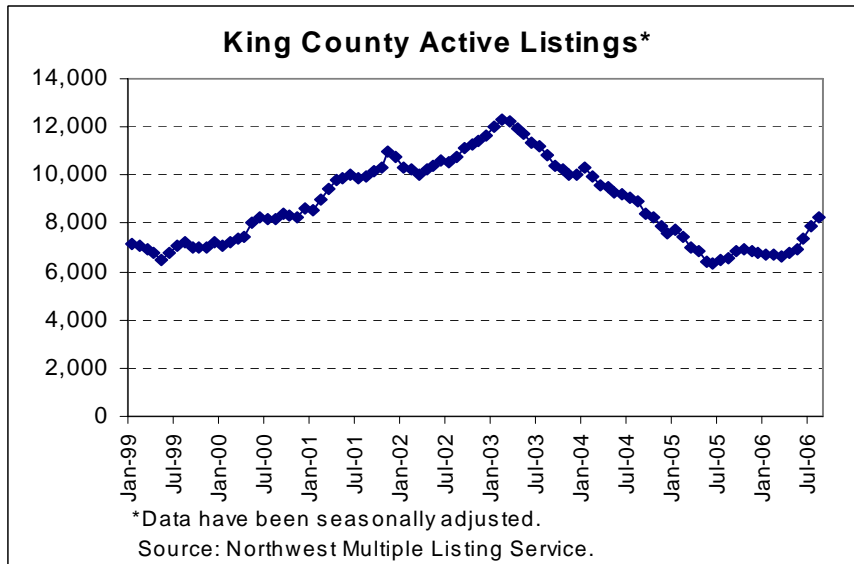
U.S. housing market: change from Aug. '05 – Aug. '06

- 12.6% Existing home sales
- 17.4% New home sales
- 1.7% Median sales price of existing homes
- 19.8% Housing starts
- 25.2% Mortgage applications
- Inventories are at highest level since 1993
 - 7.5 months of supply

Local housing market has lagged the nation; however

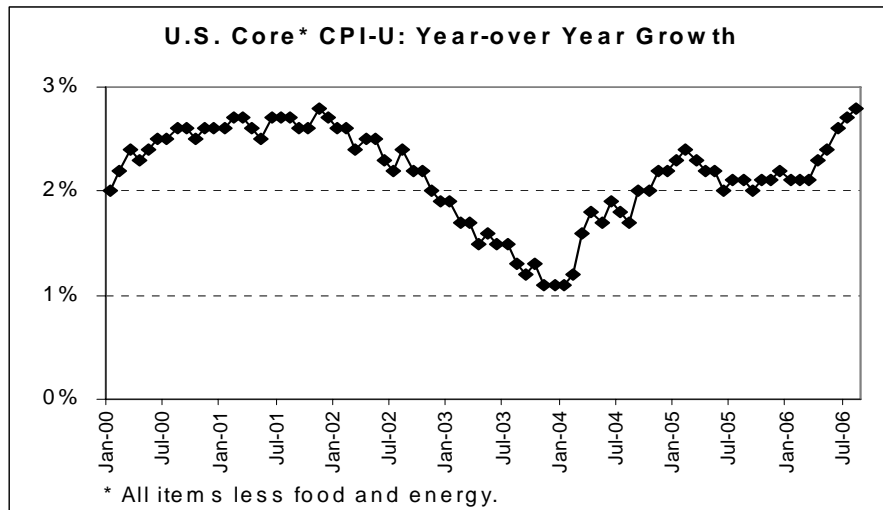
- Sales have begun to decline
- Prices are still rising but rate increase appears to have peaked
- Inventories are building
- Strong job growth is supporting the market





U.S. Economy: Recent Trends

- National economy is slowing
 - 2nd quarter GDP growth slowed to 2.6%
 - Employment growth has slowed in 2006
 - Causes include:
 - Rising energy prices
 - Slowing housing market
 - Slowing of housing related industries
 - Slowdown in consumer spending
- Inflation is rising
 - In response, Fed has raised fed funds rate to 5.25%

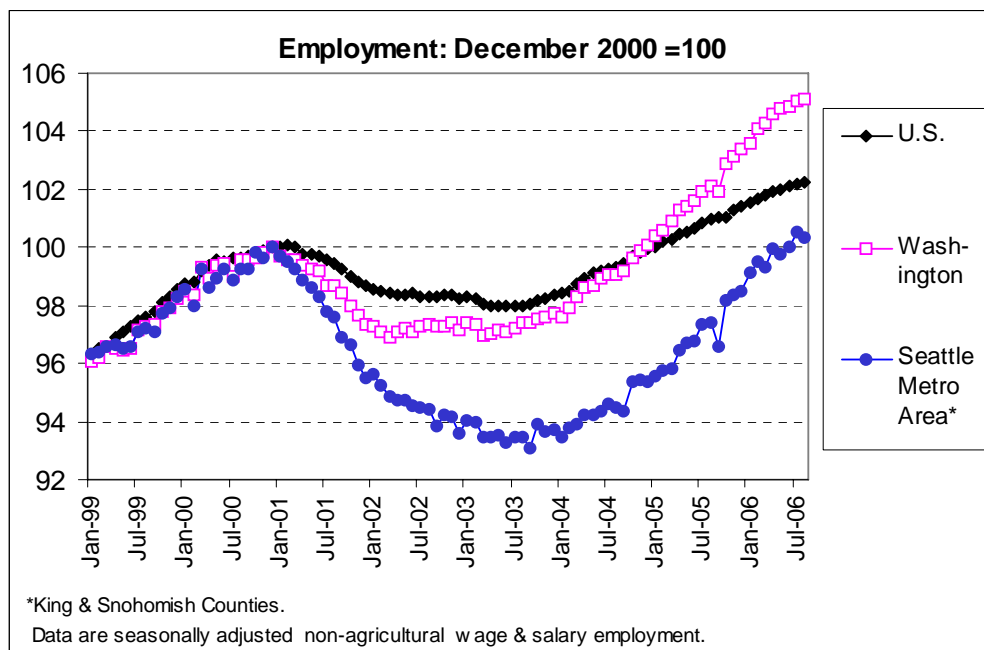
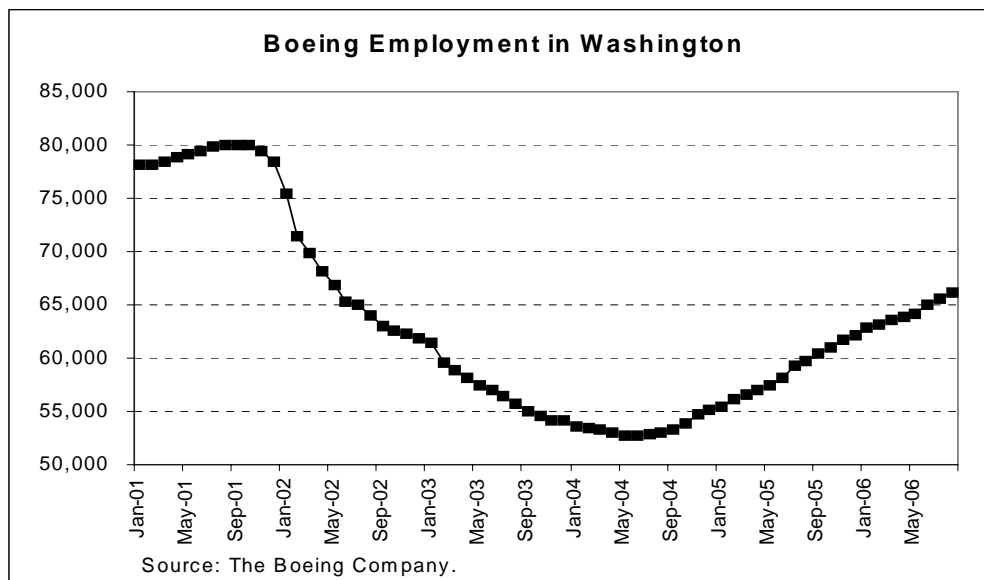


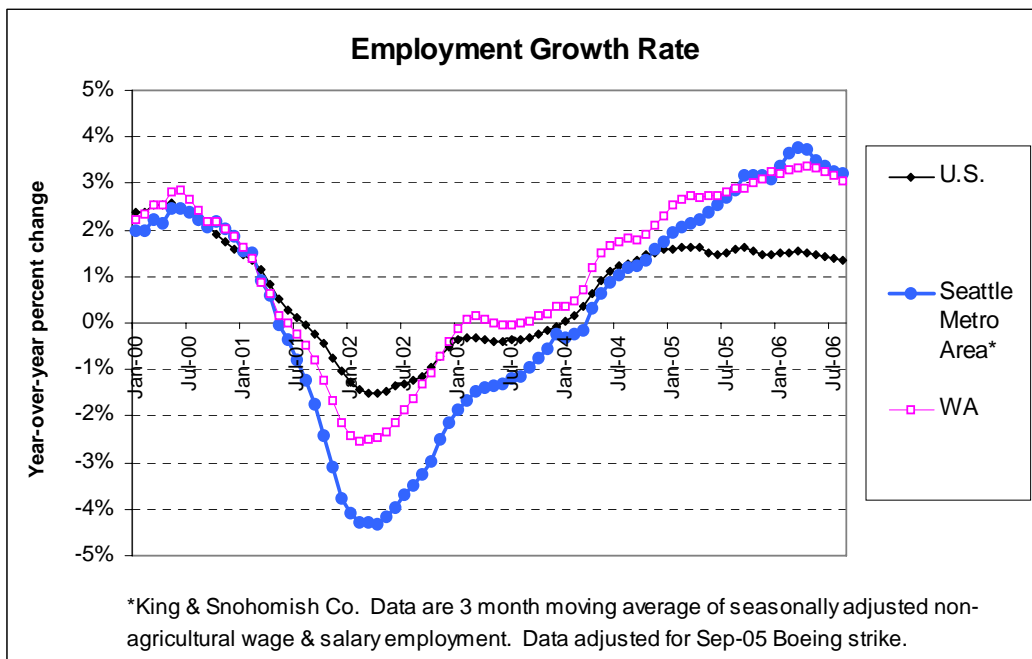
U.S. Economy: Forecast

- Forecast is for slower growth through 2008
- **Risks to the forecast include:**
 - Inflation – and Fed's response
 - Housing market slowing too sharply
 - Energy: prices or supply disruption
 - Global financial imbalances
- Some economists have raised their forecasts of recession risk 9
- Upside risk: slowdown is less severe than anticipated

Puget Sound Economy: Recent Trends

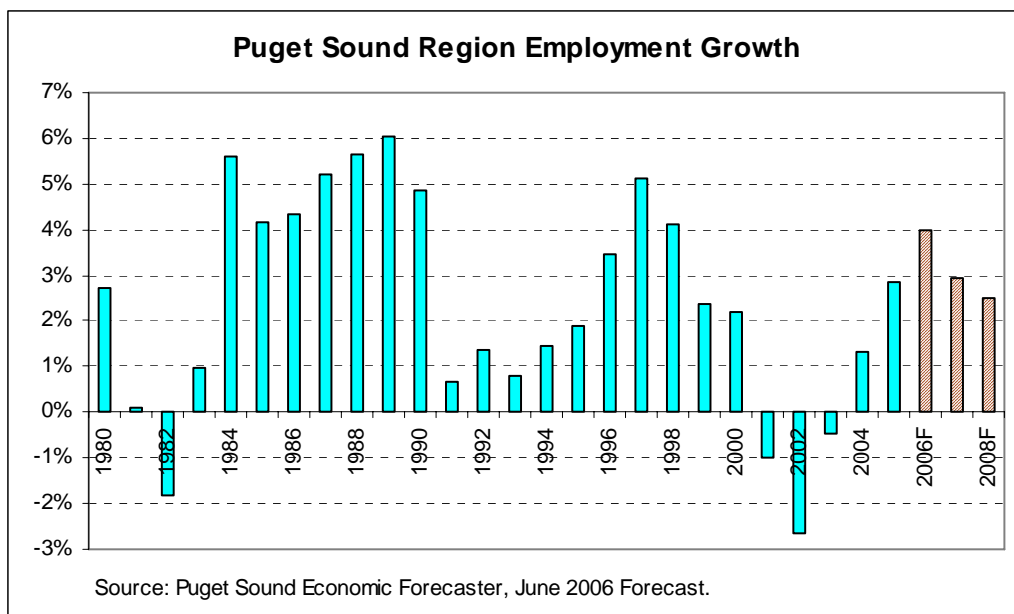
- Recent growth has exceeded expectations
 - Boeing has added 13,400 workers since June 2004
 - Microsoft added 3,900 jobs in year ending June 2006
 - High growth industries include:
 - Construction
 - Aerospace
 - Professional and business services





Puget Sound Economy: Forecast

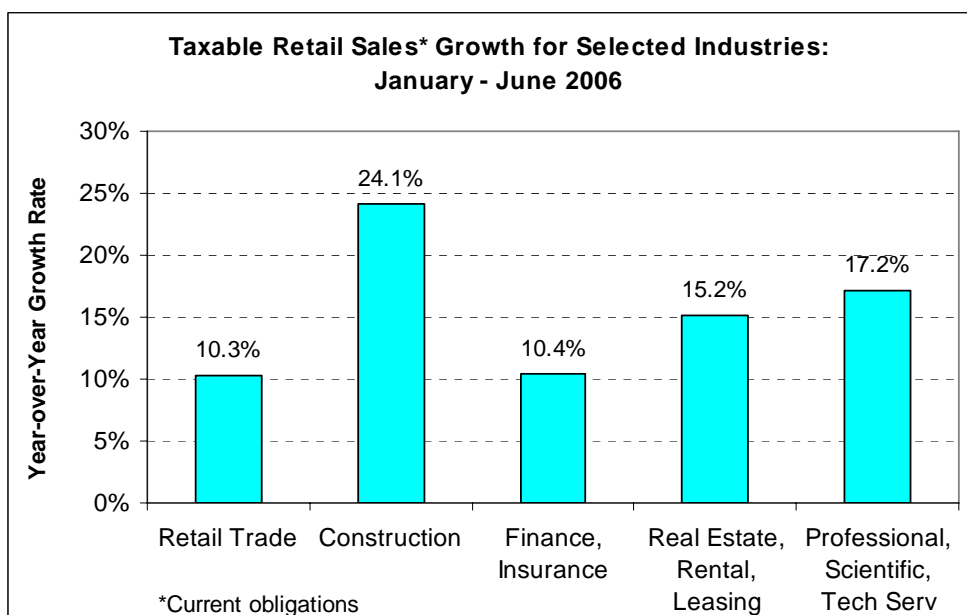
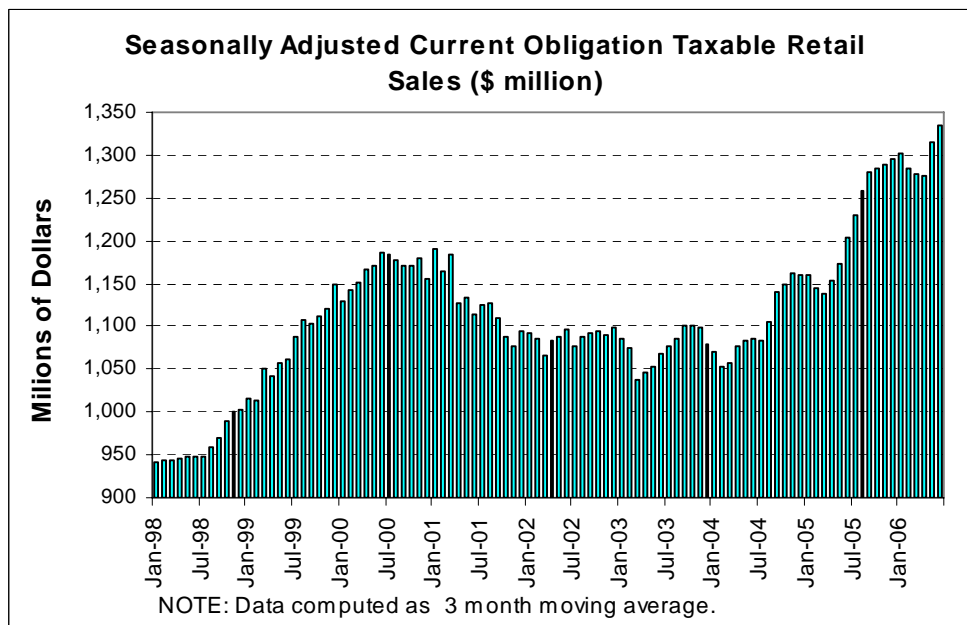
- Growth to continue but slow over time. Reasons include:
 - Cooling of real estate market
 - Impact of slower national economy
 - However, Boeing expected to continue hiring through 2008
- However, local economy may continue to outpace forecasts

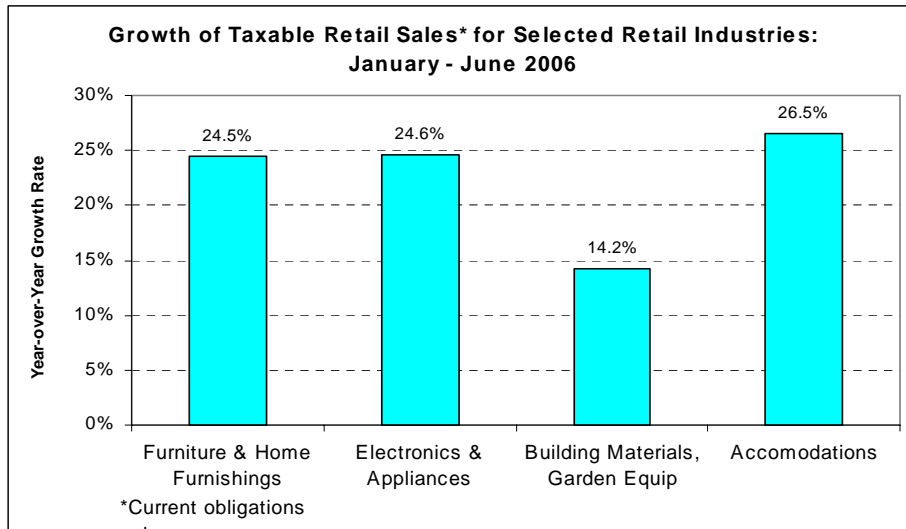


Retail Sales Tax

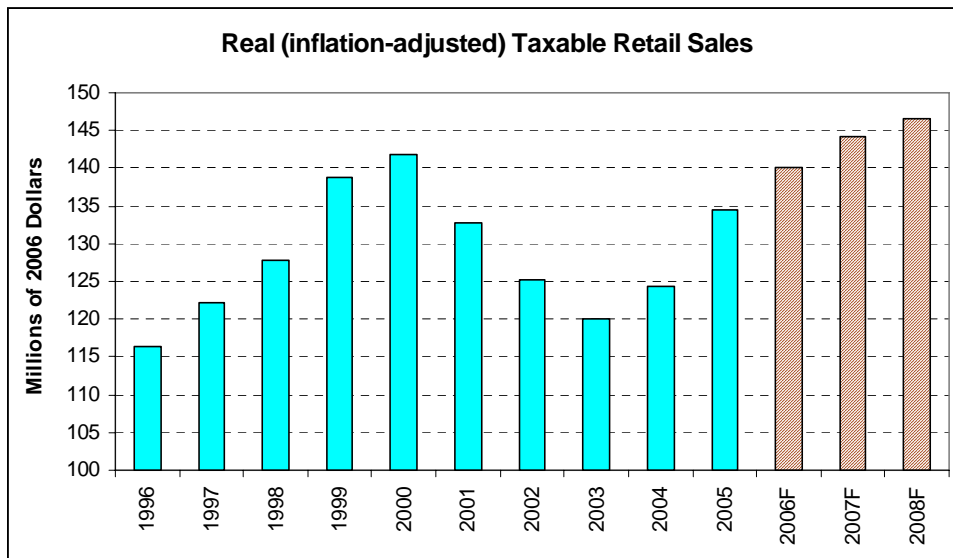
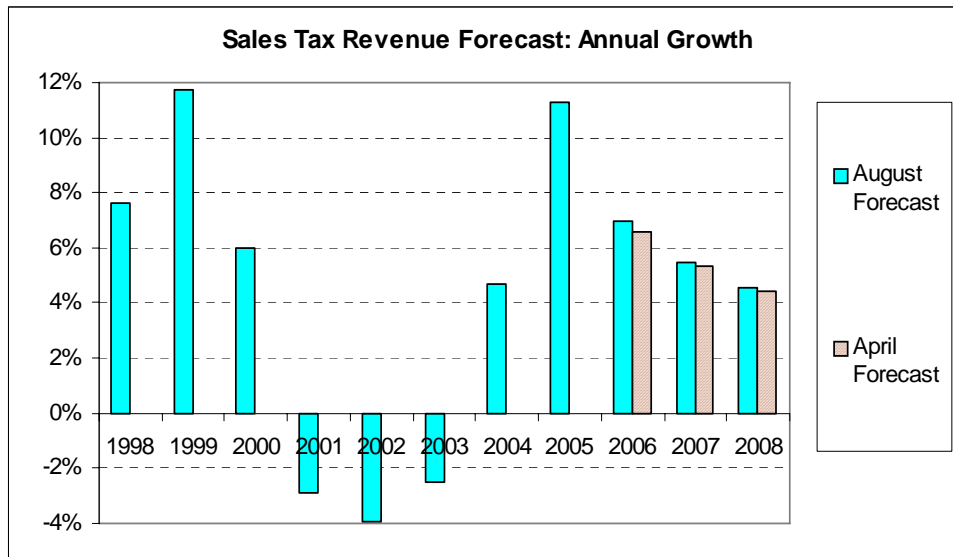
Recent Trends

- Growth was robust in 2005
 - Revenue increased 11.3%. Components:
 - 19.7% - Construction
 - 9.5% - All other industries





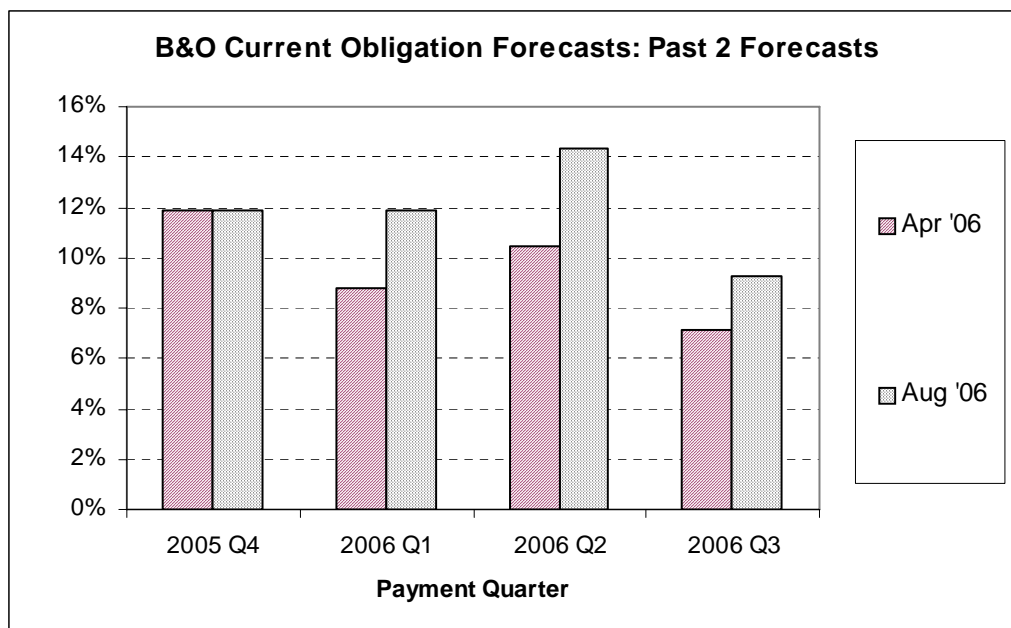
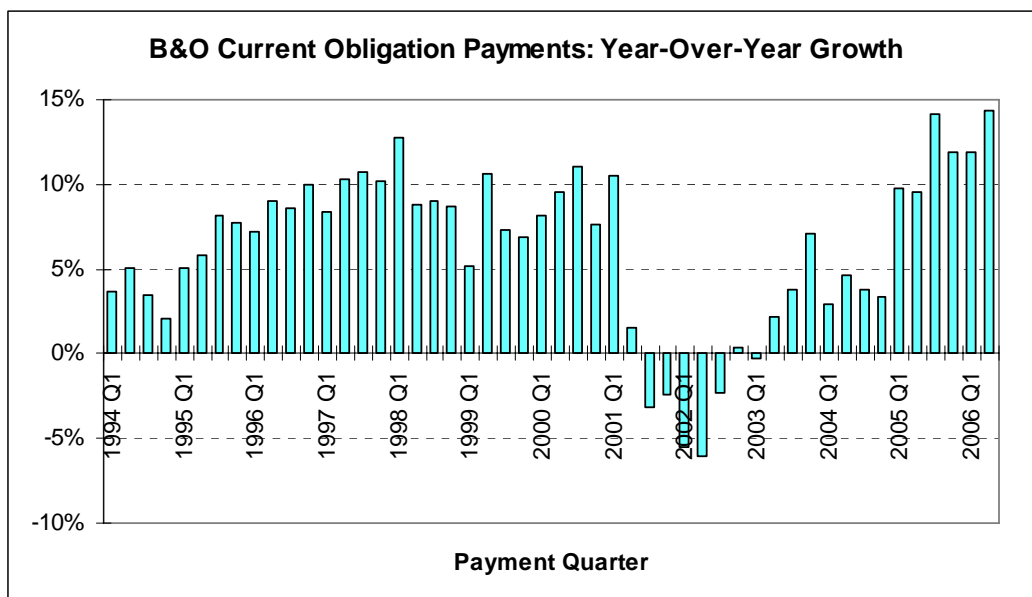
Forecast anticipates slowing revenue growth



B&O Tax

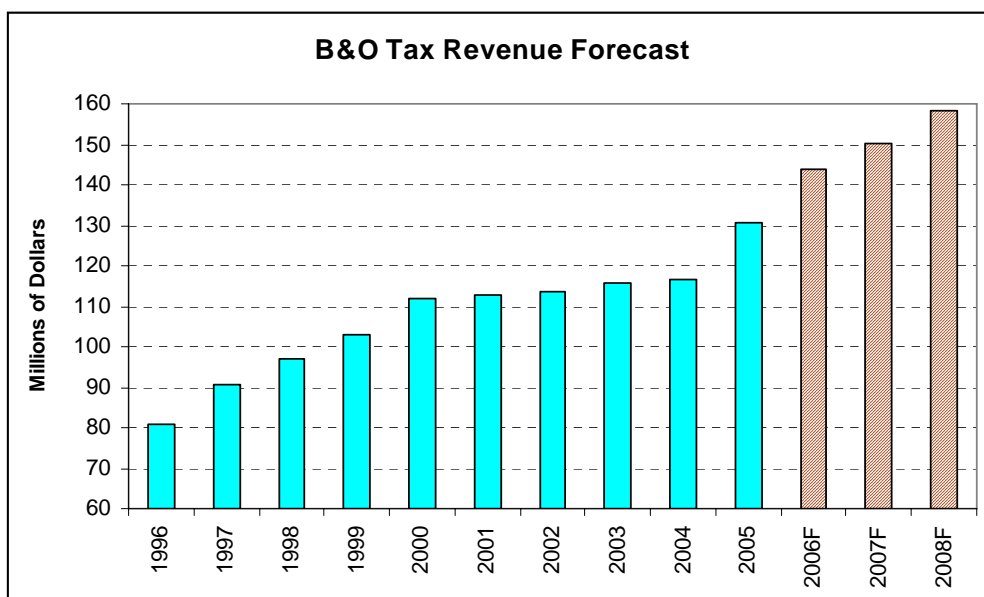
Recent Trends

- Recent growth has been very strong, led by:
 - Construction
 - Services
 - Finance, insurance & real estate
- Non-current revenue was up \$1.35 mil. year-to-date through Q2



B&O Forecast Assumptions

- HB 2030 loss not in forecast (will be \$21.3 mil. in '08 if not repealed or mitigated)
- No B&O rate changes
- Small business threshold raised to \$75,000 in 2007
 - Revenue loss estimate is \$640,000 per year
 - Approximately 3,150 businesses will be affected
- Enforcement staff added in 2006 will yield increase in non-current revenue

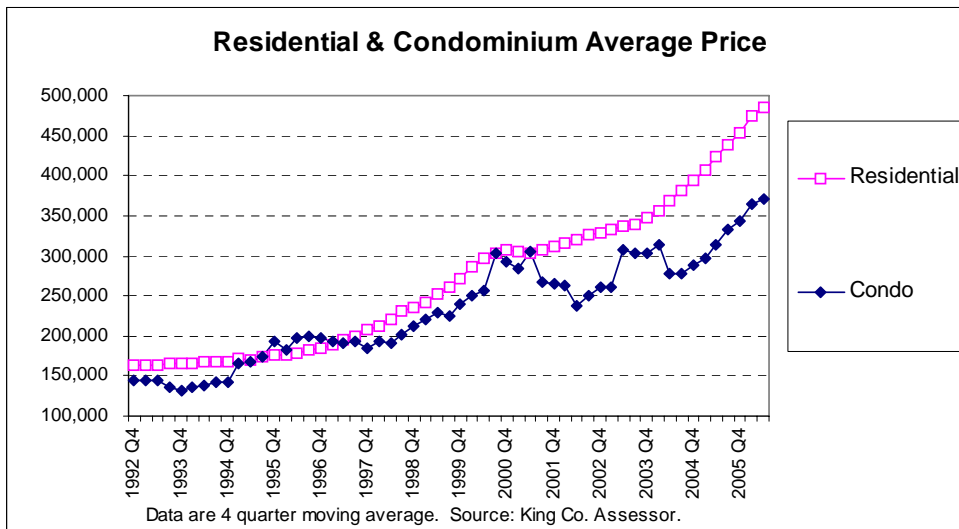
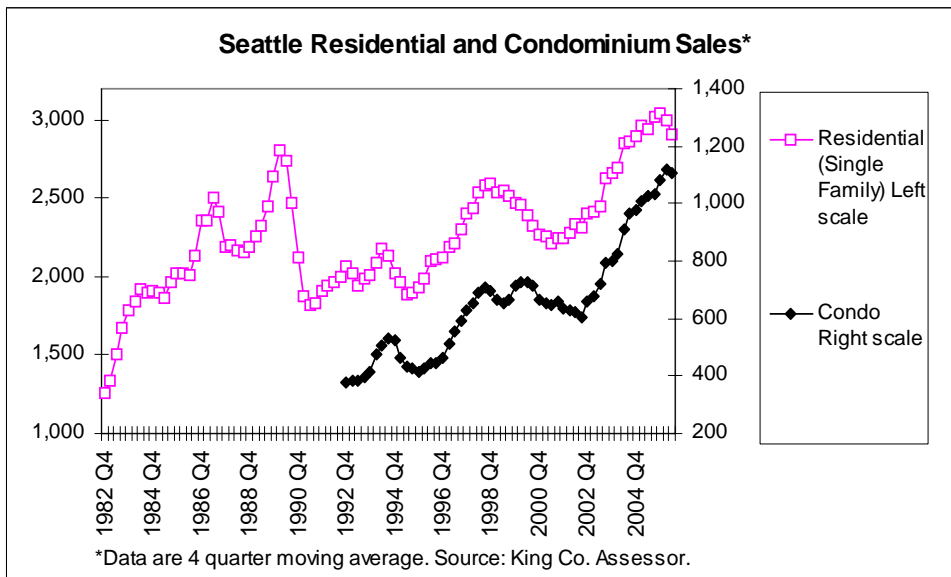
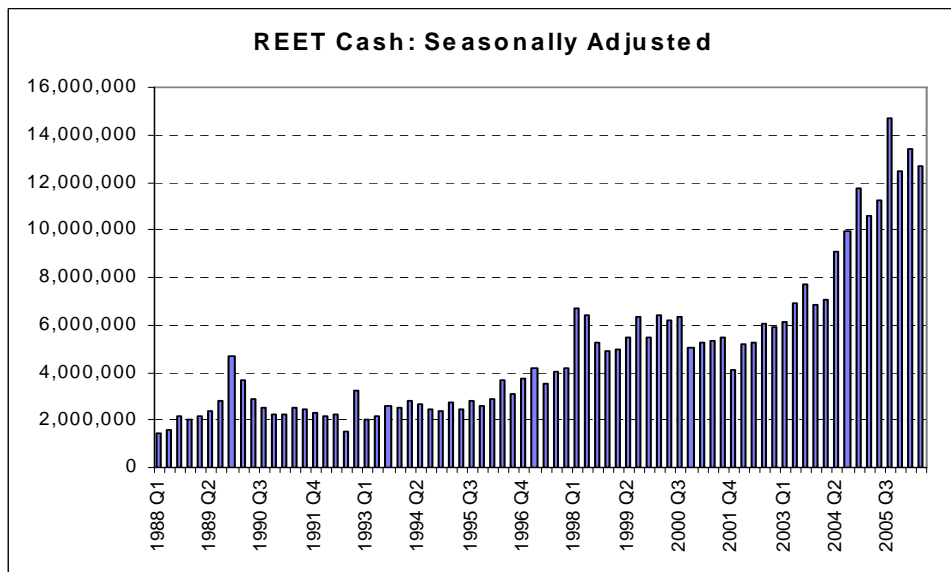


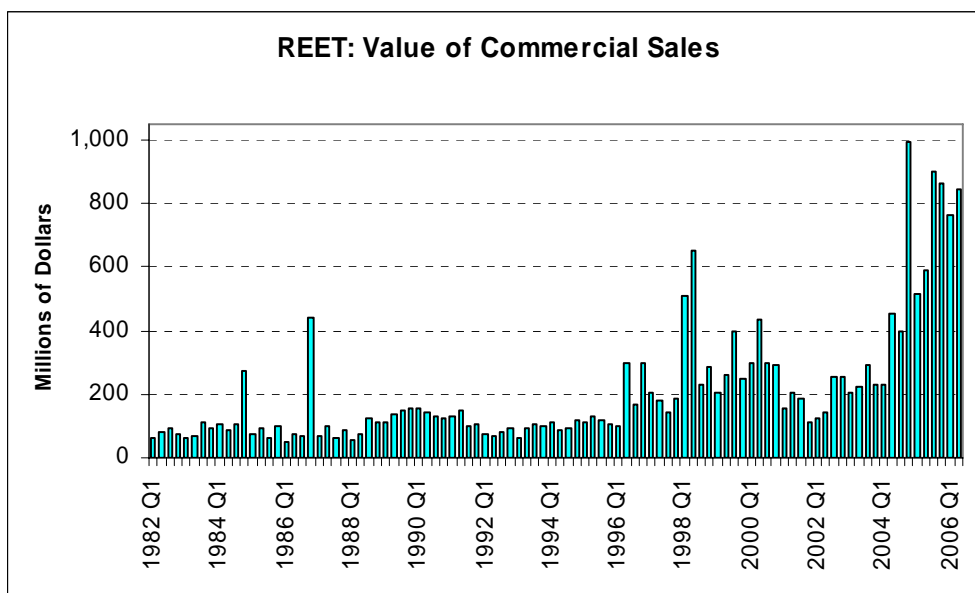
- HB 2030 mitigation strategy

Real Estate Excise Tax (REET)

Historical Trends

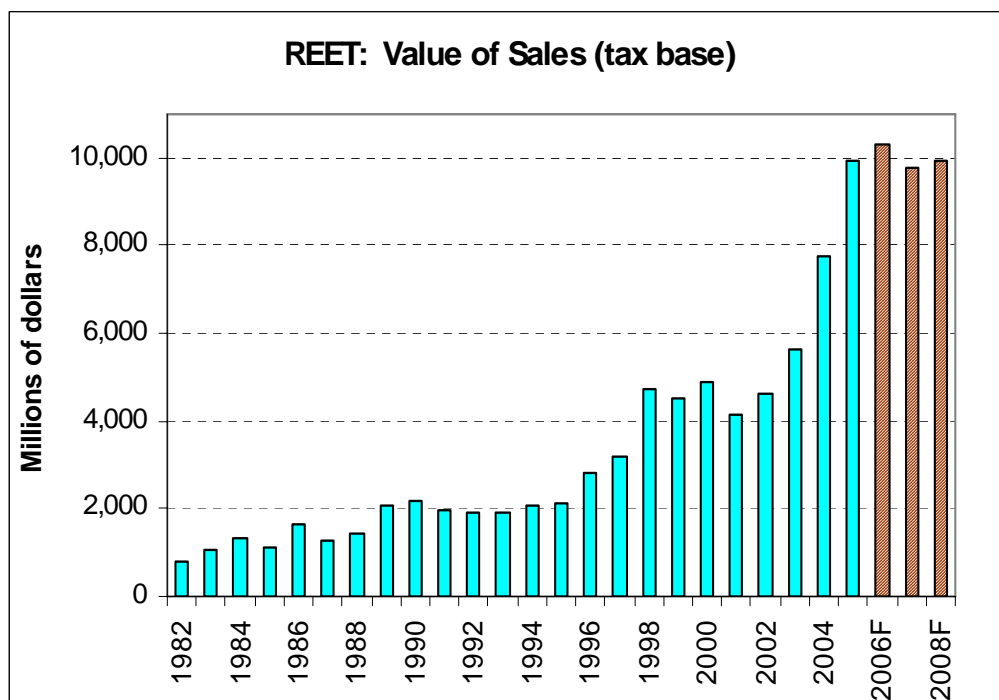
- REET revenue has more than doubled in the past 3 years
 - From \$22.6 mil. in 2002 to \$49.4 mil. in 2005
- Housing transactions have begun to decline
- Housing prices are still increasing

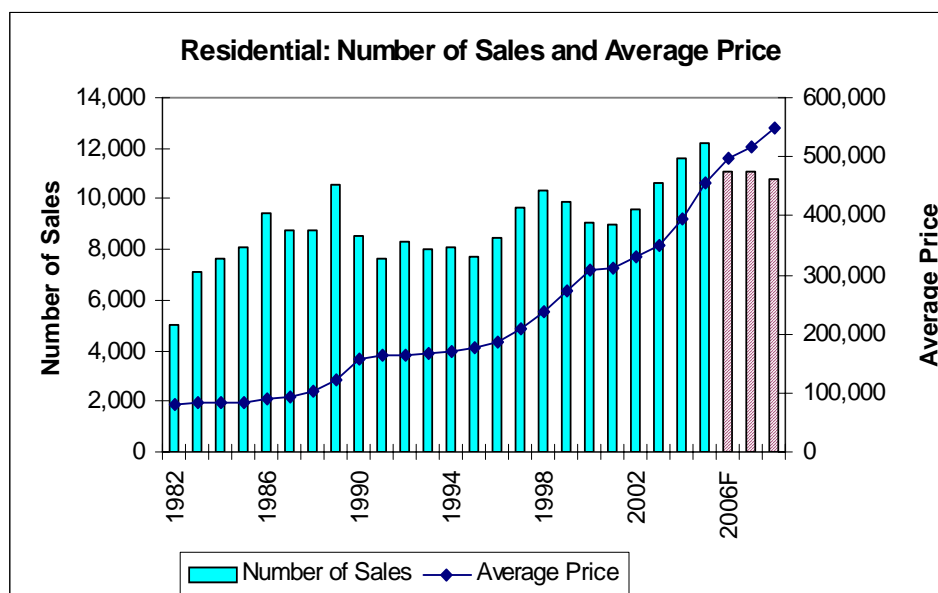
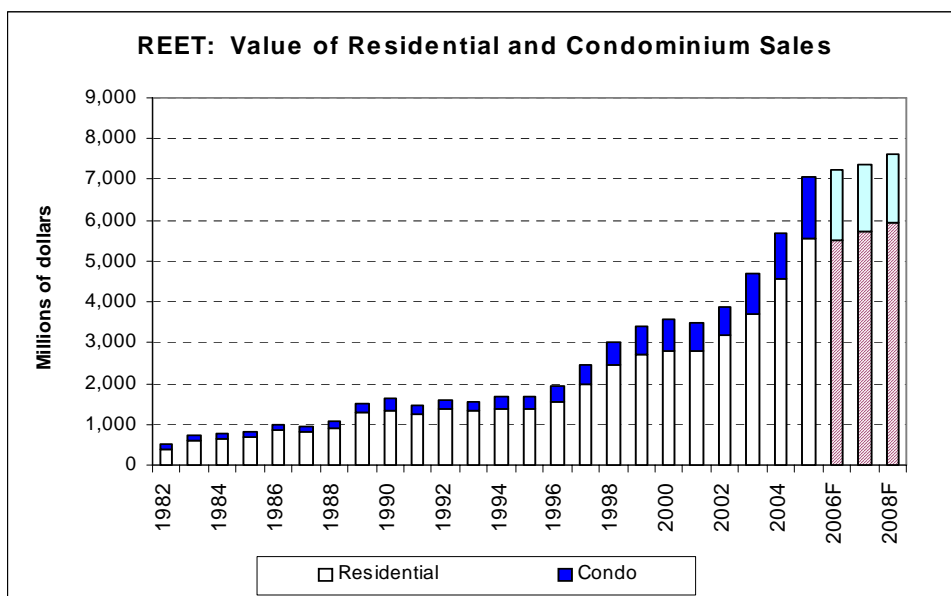
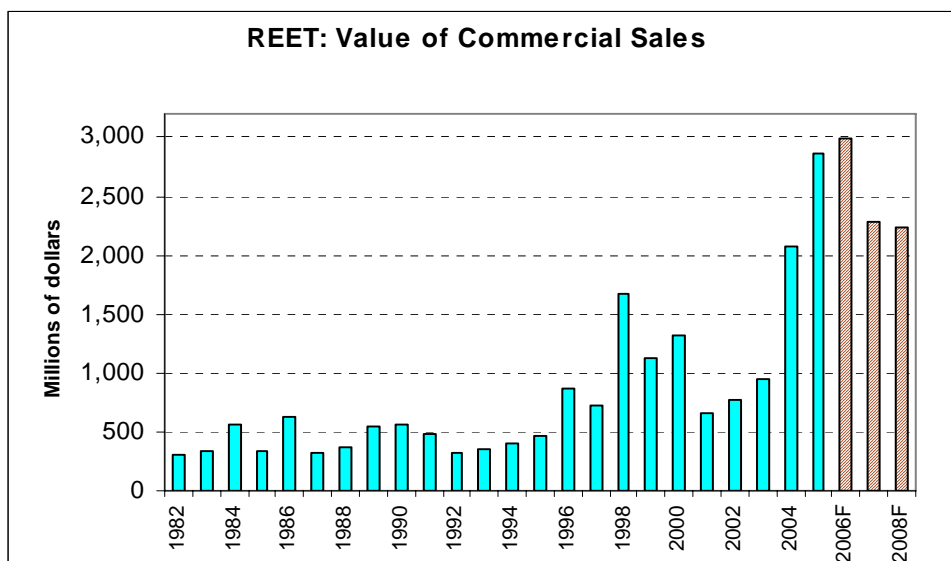




Forecast

- Assumptions:
 - Continued economic growth, slowing over time
 - No recession through 2008
 - Interest rates level off





Other Revenues

- **Natural Gas Utility Taxes**
 - Anticipate increase in Puget Sound Energy gas rates for this winter
 - Prices in the Puget Sound area are expected to ease by next spring
- **Licenses and Permits**
 - Additional fire permit fee revenues associated with new positions in FMO; no change in fee amount
 - Increase in emergency alarm fee revenue
- **Court Fines**
 - Sharp increases in the volume of payments associated with overdue tickets since January
- **Interest Income**
 - Higher cash balances and significantly higher interest rates
- **Service Charges & Reimbursements**
 - Assumes higher AFIS allocation
 - Assumes higher Emergency-911 reimbursements
 - Estimates new red light traffic camera system revenue
- **Key Arena**
 - New revenues to the General Subfund to pay debt service on Key Arena
 - Reflects the change in Key Arena debt service obligation from the Seattle Center Fund to the General Subfund.

BUDGET HIGHLIGHTS

Economic Challenges Ahead

- Growing health care costs: expenditures projected to increase from \$89 million in 2005 to \$134 million in 2008 (14.4% average annual growth).
- Civic Center space rent: loss of private tenant subsidy and increased space requirements.
- Less CDBG available due to commitment to Rainier Valley Community Development Fund and lower program income.
 - Some programs switched to General Fund (e.g., housing levy administration).
 - Some cuts made in General Fund-supported programs in HSD to shift resources to programs previously funded with CDBG.
 - HomeWise program funded from accumulated balances through 2009.

Mayor's Approach to 2007-2008

- Cover mandatory costs:
 - Wage and benefit increases.
 - Costs for operating new parks and libraries.
 - KeyArena debt service (shifted out of Seattle Center).
- Make nonrecurring investments:
 - Approximately \$12.6 million of General Fund and \$9.8 million of other funds for the biennium.
 - Largest General Fund items are one-time technology upgrades and equipment investments for Police.
- Invest in four priorities.

Transportation

- Budget reflects July version of “Bridging the Gap”:
 - September version results in slight reductions to the 2008 budget.
 - Overall “Bridging the Gap” spending would be \$39.9 million in 2007 and \$51.5 million in 2008, if levy lid lift is approved.
- Budget includes planning funds for the Alaskan Way Tunnel and Seawall:
 - Appropriations include \$24 million for City Light and \$5.5 million for SPU in 2007.
 - Councilmanic bond issue (\$4 million) and WSDOT funds cover SDOT’s costs for the biennium.

Public Safety

- Additional positions and funding are provided to several departments to improve emergency preparedness. A one-time expenditure of \$966,000 is included to build a backup 911 dispatch center at the new EOC.
- Police staffing levels are maintained by adding General Fund to cover positions previously funded by Sound Transit. These positions will be shifted to Patrol.
- Ten new patrol cars are funded to increase the number of units available.
- The Fire Department receives additional funding in 2008 to provide four-person crews on all engines.
- Staff and funding are added to Parks, Seattle Center, SDOT, and SPU to provide 48-hour response to graffiti on public property.

Jobs and Opportunity

- Apprentice positions are expanded in City Light and SPU. FFD's auto mechanic apprentice positions are funded. Personnel receives 25 unfunded apprentice positions to provide pockets for use by other departments.
- Budget adds staff to DPD, Fire, and SDOT to ensure permit processing times are met. All of these positions are fee-supported.

Strong Families and Health Communities

- A three-part Environmental Action Agenda is included in the budget:
 - “Green Seattle” focuses on adding trees and maintaining existing City-owned trees.
 - “Climate Protection Initiative” focuses on reducing greenhouse gas emissions through investments in sidewalks, bike lanes, transit, and “green” vehicles and equipment.
 - “Restore Our Waters” focuses on improving City facilities to reduce impacts on streams and shorelines.
- City commitment to the 10-Year Plan to End Homelessness is funded:
 - Approximately \$1 million annually for support services for Housing First strategy.
 - \$2 million in 2007 for OH to build additional supported housing units.
 - Approximately \$700,000 more annually to maintain current number of shelter beds.
- Neighborhood investments focus on South Park, Broadway, and Southeast Seattle.
- Seattle Center receives significant new General Fund support to reflect recommendations from Sustainability Task Force:
 - KeyArena debt service shifted to General Fund (net annual cost of \$2.6 million).
 - Restores many maintenance positions cut in early 2000s.
 - General Fund covers revenue losses due to monorail repairs. Councilmanic debt of \$4.5 million is proposed to refurbish monorail cars.
 - Approximately \$1.2 million is available to develop new plan for Center’s facilities and grounds over the next 18 months.
- Significant new investments in Parks (park rangers, more funding for artificial turf fields and lighting replacement, funding for Building 27 at Sand Point) and Library (additional collections funding and money to replace computer systems).

General Fund Budget Comparisons: 2006-2008

<u>Department</u>	<u>Average Annual Growth 2006-2008</u>
Seattle Center	16.42%
Municipal Court	13.53%
Law	9.24%
Human Services	9.13%
Fire	7.26%
Parks	6.66%*
DPD	6.60%
Library	6.42%
Criminal Justice Contracts	6.22%
DEA	5.75%
Police	5.74%
SDOT	3.39%

*Parks figure includes Charter revenue.